Petitioner's Exhibit 1.0

CONSUMERS ILLINOIS WATER COMPANY

(PETITIONER)

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 00-0422

ILLINOIS COMMERCE COMMISSION
JUL 18 9 25 AM '00
CHIEF CLERK'S OFFICE

DIRECT TESTIMONY

OF

KATHY L. PAPE

JULY 17, 2000

SPONSORING

PETITIONER'S EXHIBITS 1.1 through 1.14

CH 1198808v6

1. Please state your name, business address and telephone number.

(A) My name is Kathy L. Pape. My business address and phone number are 762 West Lancaster Avenue, Bryn Mawr, PA 19010 and 610-642-1142, respectively.

2. What is your position with Consumers Illinois Water Company ("Petitioner," the "Company" or "Consumers")?

(A) I am Treasurer of Consumers Illinois Water Company and its parent, Consumers Water Company.

3. What is your educational background?

(A) I received a Bachelor of Arts degree (magna cum laude) in Political Science from Edinboro University of Pennsylvania in 1975. In 1978 I was awarded a Juris Doctor degree from the Dickinson School of Law. In 1985 I received an LLM in Taxation (summa cum laude) from Villanova University School of Law.

4. Would you please outline your business experience.

(A) From 1977 – 1979 I was employed by the Pennsylvania Department of Justice, Office of Consumer Advocate as Assistant Consumer Advocate, during which time I represented residential customers before the Pennsylvania Public Utility Commission ("PaPuc") in electric, gas, telephone and water rate cases and complaint cases involving service issues against the same companies.

In 1979 I accepted a position as Assistant Counsel with the PaPuc's Rate Division during which time I litigated rate cases for the Commission.

In 1980 I accepted a position as Rate Attorney with General Waterworks Management and Service Company. In this position I was responsible for litigating rate cases and all other regulatory filings including, rates, service and management audits before public utility commissions in fourteen states in which General Waterworks Company's ("GWC") water and waster water companies were located.

From 1980 through 1989 I held positions of increasing responsibility at GWC and in 1989 was elected Vice President Rates and Corporate Counsel at which time I became responsible for all regulatory and legal matters for GWC's subsidiaries.

In 1994 after the merger of GWC"s parent and United Water Resources, I accepted the position of Corporate Counsel with American Water Works Service Company's Region office. I acted as company counsel for all of the financings of the eight companies that comprised the Region. In March 1998 I was elected Vice President – Finance for American's Region companies which at that time numbered twelve in eleven states. As Vice President – Finance I was responsible for the Region Companies' rates and regulation, treasury, cash management, budget and finance departments. During my years at American I was responsible for placing long term debt for fifteen financings, managing the Company's short term credit lines and developing budgets and long term business plans for each of the Region Companies.

In 1999 I accepted a position with Philadelphia Suburban Water Corporation ("PSC") as Vice President, Treasurer and Rate Counsel. I am responsible for tax exempt and taxable financings for PSC's subsidiaries in five states including Consumers Illinois Water Company. I also am responsible for cash management, budgeting, billing and litigation of rate cases if necessary.

I have chaired the National Association of Water Companies' Regulatory Law Committee and the Pennsylvania Bar Association's Public Utility Law Section and In House Counsel Committee. I am also a member of the Association of Financial Professionals (formerly the Treasury Management Association) and am on the Council of the Corporation Banking and Business Law Section of the Pennsylvania Bar Association. I am a member of the American Water Works Association's ("AWWA") Rates & Revenue Subcommittee and was one of the authors of the AWWA's M-1 Manual. I have spoken numerous times before AWWA's Annual Conference, bar association conferences, utility forums, and NARUC's attorneys conference to discuss utility and regulatory matters.

5. Have you testified before any regulatory agencies with respect to financing, accounting and other matters?

(A) No, I have not, although I have represented a public utility commission, a consumer advocate's office and utilities in financing, accounting and tax matters before approximately 25 regulatory agencies.

6. Are you generally familiar with the properties, business and financial condition of Petitioner?

(A) Yes, I am.

7. Have you read the Petition filed in this cause, and are you familiar with the facts therein set forth?

(A) Yes. For convenience, I will use the terms that have been defined in the Petition.

8. Will you please describe in general the plan of the financings?

(A) Yes. As described in the Petition, Petitioner is seeking authority to issue up to $4,500,000 in one or more series of Taxable Mortgage Bonds and/or Tax Exempt Mortgage Bonds (collectively, the "Bonds") to finance various improvement projects and its capital expansion requirements. We expect these projects to be completed over the next three years.

9. Do the purposes for the issuance of the Bonds include refunding or refinancing of any security?

(A) Yes. We may use a portion of the proceeds to refinance short-term debt incurred to temporarily fund the Project. We do not expect that at least 90% of the proceeds will be used for refunding, however. Further, as noted in the Petition, the Bonds will exceed 10% or more in a calendar year, or 20% or more in a 24-month period, of the aggregate amount of indebtedness expected to be outstanding at the date of issuance thereof. Accordingly, the issuance of the

Bonds is not excluded from the applicability of Section 6-102(b) by virtue of Section 6-102(b)(2) or (3).

10. Is the Petitioner seeking authority from the Commission to vary the timing of the financings?

(A) Yes, in order to give the Company flexibility to respond to changing market conditions and to finance the improvements to be funded with the Bonds in an efficient and cost effective means, the Company is seeking authority to vary the timing of issuances. None of the Bonds will be issued after December 31, 2001.

11. The Petition indicates that the terms of the Bonds will be set at the time of sale. How will the interest rate and other business terms be determined for the Governmental Bonds and the related Tax Exempt Mortgage Bonds?

(A) The Governmental Bonds will most likely be sold in a public offering through Edward Jones & Co. and/or one or more other underwriting firms (each an "Underwriter") pursuant to a contract of purchase among the Governmental Issuer, the Underwriter and the Petitioner. The interest rate will be a fixed rate negotiated with the Underwriter determined in accordance with market conditions at the time of issuance. To give Petitioner flexibility to complete its financing plan, we are seeking authority to issue Governmental Bonds, so long as the interest rate, determined at the time of sale, does not exceed a rate equal to the rate shown by the most recently available Revenue Bond Index ("RBI") as published in *The Bond Buyer*, plus 85 basis points. Using the highest rate over the past twelve months, this formula would have resulted in an interest rate cap of 7.20%.

12. Please explain what this index is and why it is relevant?

(A) The Bond Buyer is one of the principal daily publications covering the municipal bond industry. It publishes a number of indices of various types of tax exempt bonds. The RBI is a widely followed and generally recognized index for tax-exempt interest rates for bonds similar to the Government Bonds.

13. What interest rates has the index had over the last 12 months?

(A) On July 22, 1999, the RBI was 5.59% and steadily increased to 6.35% on January 20, 2000. Since that time the index steadily declined to 5.98% on April 13, 2000, then climbed to 6.28% on May 18, 2000. Since May the index has declined to below 6% being 5.99%, 5.98% and 5.95% on June 22, 2000, June 29, 2000 and July 6, 2000, respectively.

14. What is the reason for the 85 basis point spread over the index?

(A) The Company's credit quality is in the "BBB" rated range. Edward D. Jones, the underwriting firm used on our last tax exempt offering, has advised that an offering for the Company that is uninsured would be priced above the index by as much as the 85 basis points. We believe this spread is appropriate to give the Company flexibility to complete an offering in light of varying market conditions, but is not so high as to materially adversely affect interest coverage or the ability of the Company to meet its debt service requirements in the future.

15. How will the terms be set for any Taxable Mortgage Bonds?

(A) The Taxable Mortgage Bonds would most likely be sold in a private placement through one or more other agents (each, a "Placement Agent"). The Placement Agent would solicit potential purchasers of the Taxable Mortgage Bonds and would assist the Petitioner in negotiating an interest rate and other terms, including redemption provisions. To give Petitioner flexibility to complete its financing plan, we are seeking authority to issue Taxable Mortgage Bonds, so long as the interest rate, determined at the time of sale, does not exceed a rate equal to the most recently available yield on 30 Year U.S. Treasury Bonds ("U.S. Treasuries") as published in the Bond Buyer or the Wall Street Journal, plus 235 basis points. Using the June 30, 2000 U.S. Treasuries, this formula would have resulted in an interest rate cap of 8.24%.

16. Please explain why using U.S. Treasury Bonds as the base rate is appropriate.

(A) U.S. Treasury Bond yields are widely followed as a benchmark for many interest rate calculations and are most often used to price utility bond offerings.

17. What interest rates have U.S. Treasuries had over the last 12 months?

(A) On January 21, 2000, the yield was at 6.71%; the highest rate in the past twelve months. The range over the past year is between 6.71% and 5.70%. On June 30, 2000 the yield was 5.89% and the spread over U.S. Treasuries was 235 basis points for a 30 year maturity with a BBB rating.

18. What is the reason for the 235 basis point spread over U. S. Treasuries?

(A) Edward Jones has advised that a taxable offering for the Company that is uninsured would be priced above Treasuries by as much as 235 basis points. We believe this spread is appropriate to give the Company flexibility to complete an offering in light of varying market conditions, but is not so high as to materially adversely affect interest coverage or the ability of the Company to meet its debt service requirements in the future.

19. Are the maximum interest rates for the Bonds determined as you describe above consistent with market conditions?

(A) In my opinion, the maximum rates compare favorably with the rates for new issues of securities of quality comparable to that of Petitioner's Bonds while giving the Company the flexibility to respond to changing market conditions.

20. Do you expect the actual interest rate on the various series of the Bonds to be less than the maximum permitted rate?

(A) Yes. Also the Company will inform the Commission of the actual rates in its Special Report filings.

21. Will the Bonds be subject to redemption?

(A) The Governmental Bonds and corresponding Tax Exempt Mortgage Bonds may be redeemable in whole or in part at the option of Petitioner as may be determined in accordance with market conditions at the time of issuance. In addition, it is presently anticipated that owners of the Governmental Bonds may request that Petitioner redeem or purchase their Governmental Bonds in accordance with the "estate" provisions to be included in the Bond Indenture. Further, the Governmental Bonds and corresponding Tax Exempt Mortgage Bonds may be subject to mandatory bond sinking fund requirements. It is likely that Bonds with a maturity in excess of 10 years will be subject to redemption at the option of Petitioner after 10 years at a redemption price initially including a pre-payment premium, although the no-call period could vary, depending on market conditions. The exact structure of the redemption provisions will depend on market conditions at the time of sale.

22. Please explain the "estate" provisions.

(A) This provision has been included in the recent tax exempt bond offerings of Petitioner. Under this provision, the heirs or personal representatives of deceased owners of Governmental Bonds may, at their option, present the deceased owner's Governmental Bonds for redemption or purchase at a price of par, subject to certain limitations. This feature allows for an easy administration of such person's estate. Petitioner would be obligated to redeem or purchase all such Governmental Bonds so presented, but only up to a set amount per year through final maturity of the Governmental Bonds. The Company's maximum exposure to redemption would thus be limited. The maximum would range from 1% to 3% of the original par amount of the issue.

23. Why is the estate redemption feature desirable?

(A) In the past, Petitioner has been advised that this is a popular feature with individual investors and would assist the sale of the Governmental Bonds at an interest rate favorable to Petitioner.

24. Will the Bonds be issued on an insured basis?

(A) If Petitioner can obtain a municipal bond insurance policy at a cost which will result in debt service on a series of Bonds being less (taking into account the insurance premium) than the debt service on such Bonds without such municipal bond insurance policy, Petitioner will purchase such a policy.

25. Are you familiar with the Exhibits 1.1, 1.2, 1.3, 1.4, 1.5 and 1.7 attached to the Petition which was filed with the Commission?

(A) Yes, I am.

26. And were they prepared either by you or under your personal supervision?

(A) Yes, they were.

27. And are the facts stated therein true and correct to the best of your knowledge?

(A) Yes, they are.

28. Are there any changes to the exhibits filed with the Petition?

(A) Yes. Attached to this testimony are Amended Exhibits 1.1, 1.2, 1.3, 1.4 and 1.5 which have been updated to reflect the Company's books as of June 30, 2000 and also to reflect the Company's current plans for additional financings.

29. And were the amended exhibits prepared either by you or under your personal supervision?

(A) Yes, they were.

30. And are the facts stated therein true and correct to the best of your knowledge?

(A) Yes, they are.

31. Will you please describe the exhibits which accompany the Petition?

(A) Exhibit 1.1 is a Statement of Financial Condition of the Company as of May 31, 2000. This exhibit discloses the details of all classes of stock as well as the dividends paid over the twelve months ended May 31, 2000. It also describes all existing long-term debt and the interest requirements thereon. The last item of this exhibit discloses information regarding short-term debt existing at May 31, 2000. Exhibit 1.2 is the Consolidated Balance Sheet and Statement of Reinvested Earnings of the Company as of May 31, 2000, Per Books and Pro Forma, giving effect to the issuance of the Bonds. Exhibit 1.3 is a Consolidated Statement of Income and Expenses of Consumers for the twelve months ended May 3, 2000. Exhibit 4.1 is a Computation of Earnings Applicable to Bond Interest for

Consumers for the twelve months ended May 31, 2000. Exhibit 1.5 sets forth the Capital Structure of Consumers as of May 31, 2000 and pro forma taking into account the Bonds. Exhibit 1.6 is a schedule of Estimated Issuance Expenses. Exhibit 1.7 provides a description of the Project.

32. Please describe the amended exhibits.

(A) Amended Exhibit 1.1 is a Statement of Financial Condition of the Company as of June 30, 2000. This exhibit discloses the details of all classes of stock as well as the dividends paid over the twelve months ended June 30, 2000. It also describes all existing long-term debt and the interest requirements thereon. The last item of this exhibit discloses information regarding short-term debt existing at June 30, 2000. Amended Exhibit 1.2 is the Consolidated Balance Sheet and Statement of Reinvested Earnings of the Company as of June 30, 2000, Per Books and Pro Forma, giving effect to the issuance of the Bonds and anticipated additional equity. Amended Exhibit 1.3 is a Consolidated Statement of Income and Expenses of Consumers for the twelve months ended June 30, 2000. Amended Exhibit 1.4 is a Computation of Earnings Applicable to Bond Interest for Consumers for the twelve months ended June 30, 2000. Amended Exhibit 1.5 sets forth the Capital Structure of Consumers as of June 30, 2000 and pro forma taking into account the Bonds and also taking into account additional equity.

33. Other than updating the financial information for June 30, 2000 rather than May 31, what other changes have been made in these exhibits.

(A) The only other change is to the pro forma adjustments. In addition to showing additional long-term debt corresponding to the $4,500,000 of Bonds we have shown an adjustment for additional common equity of $ 3,000,000, for additional retained earnings of $1,919,961 through December 31, 2000. I have also made a minor adjustment of $20,000 to reflect the repayment of a portion of the City of Danville Note. Our current projections show that we will require this additional $3,000,000 of common stock prior to December 31, 2000.

34. Does the Company have any other financings planned?

(A) We do have authority from the Commission in Docket 99-0449 to issue up to $6 million of additional indebtedness to fund a nitrate abatement project in our Vermillion County Division in Danville. This authority expires December 31, 2000. Although the project will be completed, it now appears that we will not have any need for the $6 million of debt financing for which we received approval in that docket. We have not included any portion of the proposed $6 million financing in our pro forma adjustments in the attached amended exhibits. Instead, we now anticipate that in addition to the $4.5 million of Bonds for which approval is sought in this proceeding, we will issue up to $3,000,000 of common stock prior to December 31, 2000.

35. Are you seeking Commission approval for the issuance of common stock in this docket?

(A) No. We will file to seek the appropriate approvals at a later date. The approval may be sought through an informational statement filing under Section 6-102(d) if the issuance is not covered by Section 6-102(b).

36. I note that <u>Amended Exhibit 1.2</u> shows an amount for unamortized debt expense. Is any portion of that unamortized expense related to securities not yet issued?

(A) No, the figure of $1,941,078 Per Books does not include any amount attributable to securities not yet issued.

37. Are there any amounts of unamortized expense on the books of the Company relating to securities previously issued, but no longer outstanding?

(A) Yes.

38. What is the total estimated cost the Company expects to incur in connection with the proposed financings?

(A) As reflected on <u>Exhibit 1.6</u>, the total cost is estimated to be $372,475. In connection with this exhibit, I would note that the amount of the statutory issuance fee associated with the Bonds of $9,000 was calculated, pursuant to Section 6-108(2) of the Act, on the maximum amount of the Bonds ($4,500,000) to be issued.

39. Does the Petitioner seek any credit for the fee paid in Docket 99-0449?

(A) Yes. Because it is now clear that we will not issue any of the bonds approved in Docket 99-0449, Petitioner requests a credit of $12,000 (the amount paid in that proceeding) against future fees due to the Commission for financing. We propose to apply $9,000 for the $4,500,000 of Bonds to be approved in this docket leaving a credit balance of $3,000 for future financings, including the common equity financing referred to above. We understand that the order in this matter would be conditioned on a finding that the authority granted in Docket 99-0449 be terminated as of the effective date of the order in this case.

40. How does Petitioner propose to treat, for purposes of its books of account, the expenses of approximately $372,475 expected to be incurred in connection with the financing?

(A) The Company proposes to set up the expenses of approximately $372,475 related to the issuance of the Bonds as a deferred charge and amortize it over the life of the Bonds.

41. Is the Company still able to meet interest coverage and bondable plant requirements per the Indenture under the proposed debt financing?

(A) Yes it is. <u>Exhibit 1.4</u> shows the June 30, 2000 pre-tax earnings coverage multiple post-finance long-term debt interest at 2.63 times assuming a 6% interest rate on the Bonds. This coverage would of course change depending on the exact interest rate on the Bonds. The Consumers Indenture requires an interest coverage multiple of 1.75. Net Plant at June 30, 2000 is $105.9 million.

The Consumers Indenture limits the amount of First Mortgage Bonds issuable to two-thirds of net plant. Therefore, the Consumers Indenture would limit bonds issued and outstanding to approximately $70.5 million. The proposed debt financing would bring the total amount of issued first mortgage bonds to $41,870,377.

42. Do you believe that the maximum interest rates assumed in your previous answer regarding the interest rate cap forumlas are reasonable?

(A) Yes. Although I cannot predict the actual rates, the maximum rate is consistent with our projections. Coverage will of course be better if actual rates are lower. As noted, the Company is seeking flexibility to complete its financing program even if market conditions change.

43. How will the proceeds from the sale of the Tax Exempt Mortgage Bonds be disbursed?

(A) The proceeds will be deposited with the Tax Exempt Bond Trustee under the Tax Exempt Indenture. Money on deposit will then be disbursed to the Company from time to time for costs incurred on the Project defined in the applicable Loan Agreement or to reimburse the Company for expenditures already made.

44. What are the advantages to financing the costs of the Project with Tax Exempt Mortgage Bonds?

(A) Interest received by the security holder on the Government Bonds will be exempt from all present federal income taxes, under existing law. Thus, Governmental Bonds and the corresponding Tax Exempt Mortgage Bonds, can be sold bearing a lower interest rate than would be required for any bonds Petitioner might itself issue to finance the Project.

45. What factors will determine whether Tax Exempt Mortgage or Taxable Mortgage Bonds are issued?

(A) Petitioner will use Tax Exempt Mortgage Bonds, in order to achieve lower interest costs, to the maximum extent allowable under state law and federal income tax requirements. Only those parts of the construction expenditures that constitute "facilities for the furnishing of water" within the meaning of the Internal Revenue Code can constitute a "Project" for Tax Exempt Mortgage Bond purposes. Most of such construction requirements will qualify for tax exempt financing. However, under federal tax law, the amount of tax exempt bonds that may be issued by each state is limited to a specified "volume cap." Petitioner has arranged for volume cap for the full $4,500,000 of Bonds and, thus, it is likely we can finance the Project on a tax exempt basis. However, if for any reason the expected volume cap is not available for issuance of the full amount of desired tax exempt Governmental Bonds for the benefit of Petitioner, it will be necessary to issue Taxable Bonds to the extent of the shortfall.

46. What factors will determine which entity will be the Governmental Issuer for the Governmental Bonds?

(A) Selection of a Governmental Issuer will depend on which issuer has volume cap available to the Company and can issue the Governmental Bonds for the projects Petitioner is constructing and on the time schedule suitable for

Petitioner's needs. Currently, the Will-Kankakee Regional Development Authority has preliminarily agreed to issue the Governmental Bonds and has assisted in obtaining volume cap. The identity of the Governmental Issuer will not have any significant impact on the marketability or interest rate of the Governmental Bonds.

47. Do the book figures shown on Petitioner's Amended Exhibit 1.2 fairly present the financial condition of Petitioner and the results of its operations at the date and for the period indicated thereby?

(A) Yes, they do.

48. Have there been any changes in the financial condition or operations of Petitioner since June 30, 2000, other than in the regular and ordinary course of its business?

(A) No.

49. Will sufficient revenues be produced to meet all operating and maintenance expenses, depreciation, taxes, and interest and preferred stock dividend requirements on the outstanding securities of Petitioner and on the Bonds to be issued at this time?

(A) We believe that will be the case on the basis of the data contained in Petitioner's Amended Exhibits 1.2, 1.3 and 1.4.

50. What factors does the Company consider in establishing its capital structure objectives?

(A) The Company's goal is to minimize the overall cost of capital. It is also necessary, however, to maintain financial ratios which will permit the attraction of new capital on reasonable terms, and the flexibility needed to enable the Company to issue various types of securities (e.g., tax-exempt debt, long-term taxable debt, preferred or common equity) as may be appropriate under market conditions at a given time. The Company's present objective is to maintain a long-term debt ratio of approximately 50% - 55%, and a preferred stock and common equity ratio of approximately 45% - 50%.

51. What capital structure will result after issuance of the financing which the Company has proposed?

(A) In this proceeding, the Company proposes to issue tax exempt debt to the greatest extent available, and the remaining amount in taxable debt. After issuance of this debt, and assuming the issuance of $3,000,000 in common stock, the long-term debt ratio will be 47.19% and the common equity ratio will be 50.11% as shown on Petitioner's Amended Exhibit 1.5.

52. Do you believe that these are the most appropriate capitalization ratios for the Company?

(A) Yes. This will position the Company with financial ratios equivalent to an A-rated company which will allow the Company to obtain new capital at the best prevailing rates.

53. Did the Company consider alternatives to the proposed financing?

(A) Yes. In conjunction with all financings, the Company considers the appropriate mix of debt, preferred stock and common equity capital. In this instance, the Company concluded that the resulting debt and equity ratios would be at the target ranges if the Project were financed solely with debt and additional capital needs of the Company in the near future were financed with equity capital. Furthermore, to minimize cost, the Company will issue as much tax-exempt debt as is possible, given the limitations I discussed earlier, due to its lower cost as compared to taxable debt. Thus, the financing selected by the Company was the least-cost capital mix, and is consistent with the Company's capital structure objectives.

54. Would you please identify and address the supporting exhibits accompanying your direct testimony?

(A) Yes. Exhibit 1.8 is a copy of the proposed resolutions of the Board of Directors of Consumers relating to the Bonds. Exhibit 1.9 is the form of Taxable Supplemental Indenture. Exhibit 1.10 is the form of Bond Purchase Agreement for a taxable offering. Exhibit 1.11 is the form of Tax Exempt Supplemental Indenture. Exhibit 1.12 is the form of Loan Agreement. Exhibit 1.13 is the form of Tax Exempt Indenture (sometimes referred to as Bond Indenture in the Petition) and Exhibit 1.14 is the form of Underwriting Agreement (also sometimes called a Bond Purchase Agreement) for a tax exempt offering.

55. Were all of these Exhibits prepared by you or at your direction?

(A) Yes.

56. And are the facts stated therein true and correct to the best of your knowledge?

(A) Yes.

57. Please describe Exhibit 1.8.

(A) Exhibit 1.8 is a copy of a draft of the Board of Directors resolution, substantially in the form in which the Company anticipates it will be adopted, approving the proposed financing.

58. Please describe Exhibit 1.9.

(A) Exhibit 1.9 is the form of Taxable Supplemental Indenture. This is substantially the form of document which will be used to set the terms of the Taxable Bonds in conformance with the Consumers Indenture in the event the Company engages in a traditional taxable financing. It is substantially the same as supplemental indentures entered into previously by the Company.

59. Please describe Exhibit 1.10.

(A) Exhibit 1.10 is the form of Bond Purchase Agreement. Under the Bond Purchase Agreement, expected to be entered into by Consumers and one or more Purchasers , Consumers agrees to sell, and the Purchaser agrees to buy, the Taxable Mortgage Bonds at a price of 100% of the principal amount.

60. I show you a document marked as Exhibit 1.11 and ask that you identify it.

(A) Exhibit 1.11 is the proposed form of Tax Exempt Supplemental Indenture. This is substantially the form that will be used under the Consumers Indenture to provide for the terms of the Tax Exempt Bonds. These terms will mirror the terms of the Governmental Bonds and the Tax Exempt Bonds will provide security for the Governmental Bonds.

61. Please identify the document marked as Consumers' Exhibit 1.12.

(A) Exhibit 1.12 is the proposed form of the Loan Agreement.

62. Would you please summarize the general terms and provisions of the Loan Agreement?

(A) The Loan Agreement, expected to be entered into by the Government Issuer and Consumers, will provide for a loan by the Government Issuer to Consumers in the aggregate amount not to exceed $4,500,000. To obtain the funds necessary to make the loan under the Loan Agreement, the Governmental Issuer will issue one or more series of Governmental Bonds each pursuant to a trust indenture (the "Bond Indenture") to be entered into between the Government Issuer and a commercial bank (the "Bond Trustee") to be selected by Consumers. The Government Issuer's right, title and interest in the Tax Exempt Mortgage Bonds issued by Consumers and the Loan Agreement will be pledged and assigned to the Bond Trustee and will constitute security for the payment of the principal, interest and redemption premiums, if any, on the corresponding Governmental Bonds. Pursuant to the terms of the Loan Agreement, Consumers will be obligated to repay the same principal amount and the same interest rate, with the same interest payment dates, maturity and prepayment provisions to which the Government Issuer is bound under the corresponding terms of the Bond Indenture and Governmental Bonds.

63. Please identify the document marked as Consumers' Exhibit 1.13.

(A) Exhibit 1.13 is the proposed form of Bond Indenture that will create the Governmental Issuer's Tax Exempt Bonds. This instrument will set the maturity, interest rate, redemption or purchase provisions and other terms of the Governmental Bonds. As noted, the Tax Exempt Mortgage Bonds will have identical terms.

64. Please identify the document marked as Petitioners' Exhibit 1.14 and ask that you identify it.

(A) Exhibit 1.14 is the proposed form of Underwriting Agreement for the offering of Governmental Bonds. This form assumes an underwriting in a public offering. If a private placement is used, certain modifications to the representations will be made and the description of the method of sale will be altered appropriately.

65. In your opinion, is the presently proposed financing program necessary in the operation and management of the business of Petitioner and in the best interests of Petitioner and the public served by it?

(A) Yes, in my opinion, it is. By carrying out this program, the Company can fund the construction expenditures at an attractive cost for the benefit of our customers and the public we serve.

66. Does this conclude your testimony?

(A) Yes, it does.

CONSUMERS ILLINOIS WATER COMPANY
STATEMENT OF FINANCIAL CONDITION AS OF JUNE 30, 2000

A. CAPITAL STOCK

Description of Issue	AUTHORIZED	OUTSTANDING	PAR OR STATED VALUE PER SHARE	TOTAL PAR OR STATED VALUE OF SHARES: AUTHORIZED	TOTAL PAR OR STATED VALUE OF SHARES: OUTSTANDING	DIVIDENDS PAID DURING 12 MONTH PERIOD ENDING JUNE 30, 2000: RATE	DIVIDENDS PAID DURING 12 MONTH PERIOD ENDING JUNE 30, 2000: AMOUNT
Consumers Illinois Water Company							
Common Stock	750,000	596,720	$5.00	$3,750,000	$2,983,600	N/A	$1,959,000
Cumulative Preferred	5,000	4,000	$100.00	500,000	400,000	5.5%	22,000
	755,000	600,720		$4,250,000	$3,383,600		$1,981,000

B. FUNDED DEBT

Class of Bond or Obligation — First Mortgage	DATE OF ISSUANCE	DATE OF MATURITY	TOTAL PRINCIPAL AMOUNT: AUTHORIZED	TOTAL PRINCIPAL AMOUNT: OUTSTANDING	INTEREST EXPENSED DURING 12 MONTH PERIOD ENDING JUNE 30, 2000: RATE	INTEREST EXPENSED DURING 12 MONTH PERIOD ENDING JUNE 30, 2000: AMOUNT
Consumers Illinois Water Company						
Series M - 10 2/5%	12/06/88	12/01/18	$6,000,000	$6,000,000	10.40%	$624,000
Series N - 9.69%	03/15/91	03/01/21	4,500,000	4,500,000	9.69%	436,050
Series O - 7.63%	09/21/95	09/01/25	8,000,000	8,000,000	7.63%	610,400
Series P - 9.19%	09/21/95	07/15/22	6,000,000	6,000,000	9.19%	551,400
Series Q - 6.00%	09/21/95	09/01/25	2,800,000	2,800,000	6.00%	168,000
Series R - 6.10%	09/21/95	09/01/25	10,000,000	10,000,000	6.10%	610,000
TOTAL			$37,300,000	$37,300,000		$2,999,850
Non Interest Bearing - City of Danville	06/17/75	Until Paid	294,924	90,377		
TOTAL			$37,594,924	$37,390,377		$2,999,850

CONSUMERS ILLINOIS WATER COMPANY
STATEMENT OF FINANCIAL CONDITION AS OF JUNE 30, 2000

C. NOTES PAYABLE

Bank Loans			Note Amount - 6/30/00		Interest Expensed During 12 Months Ended 6/30/00	
	Effective Date	**Maturity Date**	**Original**	**Outstanding**	**Rate** (1)	**Amount**
National City Bank	05/22/00	07/22/00	2,000,000	2,000,000	6.33%	137,094
			$2,000,000	$2,000,000		$137,094

(1) Based upon average outstanding balance during period.

CONSUMERS ILLINOIS WATER COMPANY
CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2000 AND PRO FORMA

	Balance As of June 30, 2000	7/1 - 12/31 PROJECTED ADJUSTMENTS	12/31/00 Pro Forma
ASSETS			
Utility Plant In Service	$137,949,211		$137,949,211
Construction Work In Progress	3,870,054	9,419,961	13,290,015
Plant Held for Future Use (net)	449,749		449,749
Accumulated Depreciation	(36,538,113)		(36,538,113)
Utility Plant - Acquisition Adjustments (Net)	154,193		154,193
Net Utility Plant	$105,885,094	$9,419,961	$115,305,055
Non Utility Plant (Net of Depreciation)	$446,888		$446,888
Sludge Lagoon Depository	392,678		392,678
Current Assets:			
Cash	$1,267,647	($20,000)	$1,247,647
Accounts Receivable (Net)			
Customers	2,447,870		2,447,870
Unbilled Revenue	918,898		918,898
Materials and Supplies	490,252		490,252
Prepayments and Other	34,840		34,840
Sub Total	$5,999,074	($20,000)	$5,979,074
DEFERRED DEBITS:			
Unamortized Debt Expense	$1,941,078		$1,941,078
Rate Case Expense	1,172,555		1,172,555
Tank Painting	478,637		478,637
Regulatory Assets - FASB 109	727,645		727,645
Cylinder Deposits	67,187		67,187
Miscellaneous	8,910		8,910
Deferred Taxes	3,105,241		3,105,241
Sub Total	$7,501,254	$0	$7,501,254
TOTAL ASSETS	$119,385,422	$9,399,961	$128,785,383

CONSUMERS ILLINOIS WATER COMPANY
CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2000 AND PRO FORMA

SHAREHOLDERS INVESTMENT AND LIABILITIES	Balance As of June 30, 2000	7/1 - 12/31 PROJECTED ADJUSTMENTS	12/31/00 Pro Forma
Shareholders Equity			
Preferred Stock	$400,000		$400,000
Premium on Preferred Stock	1,150		1,150
Common Shares Issued	2,983,600	$3,000,000	5,983,600
Premium on Common Shares	8,966,400		8,966,400
Other Paid In Capital	13,821,511		13,821,511
Retained Earnings	13,822,182	1,919,961	15,742,143
Capital Stock Expense	(50,792)		(50,792)
Sub Total	$39,944,051	$4,919,961	$44,864,012
Long Term Debt:			
First Mortgage Bonds	$37,300,000	$4,500,000	$41,800,000
Non-Interest Bearing - City Of Danville	90,377	(20,000)	70,377
Total Long-Term Debt	$37,390,377	$4,480,000	$41,870,377
Short Term Debt	$2,000,000		2,000,000
Total Capitalization	$79,334,428	$9,399,961	$88,734,389
Current Liabilities			
Accounts Payable			
Trade	$557,481		$557,481
Affiliates	121,972		121,972
Accrued Taxes	833,888		833,888
Accrued Interest	1,237,043		1,237,043
Accrued Employees Benefits	889,340		889,340
Miscellaneous Accruals	705,406		705,406
Sub Total	$4,345,131	$0	$4,345,131
Deferred Credits			
Customers Advances	$3,216,133		$3,216,133
Income Taxes	10,412,301		10,412,301
Unamortized ITC	1,017,412		1,017,412
Regulatory Liabilities - FASB 109	1,815,743		1,815,743
Sub Total	$16,461,589	$0	$16,461,589
Contributions In Aid of Construction	$19,244,275		$19,244,275
TOTAL EQUITY & LIABILITIES	$119,385,423	$9,399,961	$128,785,384

CONSUMERS ILLINOIS WATER COMPANY
CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2000 AND PRO FORMA
FINANCING & STOCK ISSUE ADJUSTMENTS

		Debit	Credit
1).	**To Record the Proceeds From the Issuance of Bond Series "S"**		
A/C	181 Unamortized Debt Expense		
	221 Mortgage Bonds		4,500,000
	105 Construction Work In Process	4,500,000	
		$4,500,000	$4,500,000
2).	**To Record the Proceeds From the Issuance of Common Stock**		
A/C	201 Common Stock		3,000,000
	105 Construction Work In Process	3,000,000	
		$3,000,000	$3,000,000
3).	**To Record the Increase In Retained Earnings, and the Application of Those Earnings to CWIP.**		
A/C	215 Retained Earnings		1,919,961
	105 Construction Work In Process	1,919,961	
		$1,919,961	$1,919,961
4).	**To Record the Payment to Reduce the Balance of the Non-Interest Bearing Debt to the City of Danville.**		
A/C	131 Cash		20,000
	224 Other Long Term Debt	20,000	
		$20,000	$20,000

CONSUMERS ILLINOIS WATER COMPANY
CONSOLIDATED REINVESTED EARNINGS AS OF JUNE 30, 2000

Balance As of July 1, 1999	$11,939,210
Net Income - 7/1/99 - 6/30/00	3,863,972
Dividends Paid - 7/1/99 - 6/30/00	
Preferred	(22,000)
Common	(1,959,000)
Balance As of June 30, 2000	$13,822,182

CONSUMERS ILLINOIS WATER COMPANY
STATEMENT OF INCOME AND EXPENSES FOR THE TWELVE MONTHS ENDED JUNE 30, 2000

Operating Revenue	$24,845,973
Operating Expenses	
Operations and Maintenance	$11,452,954
Depreciation	3,379,114
Taxes Other Than Income	1,423,847
Income Taxes	2,136,342
Subtotal	18,392,257
Operating Income	$6,453,716
Other (Income) and Expenses	
Interest on Long Term Debt	$2,999,850
Interest on Interim Financings	137,094
Amortization of Debt Issuance Expense/Premiums	100,939
Other Income	(552,826)
Allowance for Borrowed Funds	(95,313)
Subtotal	$2,589,744
Net Income	$3,863,972
Preferred Dividends	(22,000)
Net Income to Common	$3,841,972

CONSUMERS ILLINOIS WATER COMPANY
COMPUTATION OF CONSOLIDATED EARNINGS APPLICABLE TO BOND INTEREST
FOR THE TWELVE MONTHS ENDED JUNE 30, 2000

	12 Months Ended June 30, 2000	Pro Forma Amount
OPERATING REVENUES		
Water		
Unmetered Sales	$804,034	$804,034
Metered Sales	16,883,328	16,883,328
Private Fire Protection	157,311	157,311
Public Fire Protection	1,087,201	1,087,201
Sales for Resale	550,495	550,495
Miscellaneous Revenues	488,855	488,855
Total	$19,971,223	$19,971,223
Sewer		
Unmetered Sales	$3,601,285	$3,601,285
Metered Sales	861,383	861,383
Revenue from Other Systems	408,665	408,665
Miscellaneous Revenues	3,417	3,417
Total	$4,874,750	$4,874,750
TOTAL REVENUES	$24,845,973	$24,845,973

CONSUMERS ILLINOIS WATER COMPANY
COMPUTATION OF CONSOLIDATED EARNINGS APPLICABLE TO BOND INTEREST
FOR THE TWELVE MONTHS ENDED JUNE 30, 2000

OPERATING EXPENSES	12 Months Ended June 30, 2000	Pro Forma Amount
Operations		
Water	$8,479,467	$8,479,467
Sewer	1,486,535	1,486,535
Maintenance		
Water	1,224,260	1,224,260
Sewer	150,948	150,948
Depreciation		
Water	2,822,662	2,822,662
Sewer	668,542	668,542
Taxes Other Than Income		
Water	1,206,190	1,206,190
Sewer	217,312	217,312
Total	$16,255,915	$16,255,915
Earnings applicable to bond interest	$8,590,058	$8,590,058
Annual earnings will support on a one and three-fourths time basis, bonds having an aggregate annual interest requirement of	$4,908,604	$4,908,604

CONSUMERS ILLINOIS WATER COMPANY
COMPUTATION OF CONSOLIDATED EARNINGS APPLICABLE TO BOND INTEREST
FOR THE TWELVE MONTHS ENDED JUNE 30, 2000

		12 Months Ended June 30, 2000	Pro Forma Amount
That the Aggregate Principal Amount of Bonds Outstanding is as Follows:			
Series M 10 2/5%	Dated - December 6, 1988 Due - December 1, 2018	$6,000,000	$6,000,000
Series N 9.69%	Dated - March 15, 1991 Due - March 1, 2021	4,500,000	4,500,000
Series O 7.63%	Dated - September 1, 1995 Due - September 1, 2025	8,000,000	8,000,000
Series P 9.19%	Dated - July 15, 1995 Due - July 15, 2022	6,000,000	6,000,000
Series Q 6.10%	Dated - September 21, 1995 Due - September 1, 2025	10,000,000	10,000,000
Series R 6.00%	Dated - September 21, 1995 Due - September 1, 2025	2,800,000	2,800,000
Series S 6.00%	Dated - September 1, 2000 Due - September 1, 2030	0	4,500,000
	Sub Total	$37,300,000	$41,800,000
Non-Interest Bearing Note (City of Danville)		$90,377	$70,377
	Total	$37,390,377	$41,870,377
And the Annual Interest Requirement on such Bonds is as Follows:			
Series M - 10 2/5%	In the amount of $6,000,000	$624,000	$624,000
Series N - 9.69%	In the amount of $4,500,000	436,050	436,050
Series O - 7.63%	In the amount of $8,000,000	610,400	610,400
Series P - 9.19%	In the amount of $6,000,000	551,400	551,400
Series Q - 6.10%	In the amount of $10,000,000	610,000	610,000
Series R - 6.00%	In the amount of $2,800,000	168,000	168,000
Series S - 6.00%	In the amount of $4,500,000	0	270,000
Non-Interest Bearing Note	In the amount of $139,282	0	0
	Total	$2,999,850	$3,269,850
Excess of Annual Earnings Available to Support Bond Interest Over Annual Interest Requirement		$1,908,754	$1,638,754
Pre Tax Interest Coverage Ratio		2.86	2.63

CONSUMERS ILLINOIS WATER COMPANY
CAPITAL STRUCTURE AS OF JUNE 30, 2000 AND PRO FORMA

	Balance As of June 30, 2000	7/1 - 12/31 PROJECTED ADJUSTMENTS	12/31/00 PRO FORMA BALANCE	CAPITALIZATION RATIOS ACTUAL JUNE 30, 2000	CAPITALIZATION RATIOS PRO FORMA DEC. 31, 2000
FIRST MORTGAGE BONDS					
Series M - 10 2/5% - Due 2018	$6,000,000		$6,000,000	7.56%	6.76%
Series N - 9.69% - Due 2021	4,500,000		4,500,000	5.67%	5.07%
Series O - 7.63% - Due 2025	8,000,000		8,000,000	10.08%	9.02%
Series P - 9.19% - Due 2022	6,000,000		6,000,000	7.56%	6.76%
Series Q - 6.10% - Due 2025	10,000,000		10,000,000	12.60%	11.27%
Series R - 6.00% - Due 2025	2,800,000		2,800,000	3.53%	3.16%
Series S - 6.00% - Due 2030	0	4,500,000	4,500,000	0.00%	5.07%
Subtotal	$37,300,000	$4,500,000	$41,800,000	47.02%	47.11%
OTHER LONG TERM DEBT					
Non Interest Bearing - City of Danville	$90,377	($20,000)	$70,377	0.11%	0.08%
Total	$37,390,377	$4,480,000	$41,870,377	47.13%	47.19%
SHORT TERM DEBT					
Lines of Credit	$2,000,000		$2,000,000	2.52%	2.25%
PREFERRED EQUITY					
Preferred Stock	$400,000		$400,000	0.50%	0.45%
Premium on Preferred Stock	1,150		1,150	0.00%	0.00%
Total	$401,150		$401,150	0.51%	0.45%
COMMON EQUITY					
Common Shares Issued	$2,983,600	$3,000,000	$5,983,600	3.76%	6.74%
Premium on Common Shares	8,966,400		8,966,400	11.30%	10.10%
Other Paid In Capital	13,821,511		13,821,511	17.42%	15.58%
Retained Earnings	13,822,182	1,919,961	15,742,143	17.42%	17.74%
Capital Stock Expense	(50,792)		(50,792)	-0.06%	-0.06%
Total	$39,542,901	$4,919,961	$44,462,862	49.84%	50.11%
TOTAL CAPITALIZATION	$79,334,428	$9,399,961	$88,734,389	100.00%	100.00%